

Message Text

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ACTION TRSE-00

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
CIEP-01 LAB-04 SIL-01 OMB-01 /049 W
-----200354Z 100125 /20

R 191800Z JAN 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 9677
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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STATE PASS TREASURY

E.O. 11652: N/A
TAGS: EFIN, BR
SUBJ: CRUZEIRO DEVALUATION AND FOREIGN BORROWING

1. EFFECTIVE JANUARY 18, 1977, THE CENTRAL
BANK DEVALUED THE CRUZEIRO FOR THE FIRST TIME
IN 1977. THE CHANGE WAS FOR 1.996 PERCENT AND
CAME WITH A 27-DAY INTERVAL. THE NEW CRUZEIRO/
DOLLAR RATES ARE 12.520 FOR BUY AND 12.590
FOR SELL.

COMMENT:

2. ACTIVITY IN THE FOREIGN EXCHANGE MARKETS
DURING THE PAST WEEK HAD REPORTEDLY COME TO A
VIRTUAL HALT, AWAITING THE FIRST DEVALUATION
OF THE YEAR. ACTIVITY IS EXPECTED TO PICK UP
DURING THE NEXT FEW DAYS AS FIRMS AND BANKS BRING
IN FUNDS WHICH THEY HAD CONTRACTED ABROAD BUT
WERE AWAITING THE RATE CHANGE BEFORE DRAWING
DOWN THESE LOANS. DEMAND FOR FOREIGN LOANS
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CONTINUES VERY STRONG, A SITUATION ATTRIBUTABLE
TO A FAVORABLE INTEREST RATE DIFFERENTIAL, AND
A SCARCITY OF DOMESTIC CREDIT. THE COST OF
FOREIGN BORROWING IS 6-14 PERCENT CHEAPER
THAN DOMESTIC BORROWING, WITH THE ACTUAL
DIFFERENCE DEPENDING ON THE CREDITWORTHINESS
OF THE LOCAL BORROWER. THE COST OF CRUZEIRO

LOANS RANGE FROM ABOUT 50 PERCENT FOR "BLUE CHIP" COMPANIES TO 56-58 PERCENT FOR LESS KNOWN FIRMS. THE COST OF FOREIGN LOANS IS ABOUT 44 PERCENT, ASSUMING AN EXPECTED DEVALUATION OF 30 PERCENT IN 1977. FOLLOWING IS THE BREAK-DOWN OF THE COST OF FOREIGN BORROWING FOR A "TYPICAL" BRAZILIAN FIRM WITH ACCESS TO THE FOREIGN MARKET:

	PERCENT
LIBOR	6.0
SPREAD OVER LIBOR	2.0-2.5
INTEREST WITHHOLDING	
TAX (3.75 PERCENT, NET)	0.33
COMMISSION FOR BRAZILIAN	
FINANCIAL INTERMEDIARIES	4.00
TAX ON FINANCIAL OPERATIONS	1.00
DEVALUATION (EXPECTED ANNUAL RATE)	30.00
TOTAL	43.33-43.83

3. IT SHOULD BE NOTED THAT THE SPREAD OVER LIBOR CAN GO AS HIGH AS 2.5 PERCENT, WHICH REPRESENTS AN INCREASE FROM THE 1-7/8 - 2.0 PERCENT SPREAD THAT PREVAILED THROUGHOUT 1976. ACCORDING TO A REPRESENTATIVE OF A LARGE AMERICAN BANK HERE, THE CENTRAL BANK RECENTLY REGISTERED A RESOLUTION 63 LOAN TO A WELL-KNOWN BRAZILIAN BANK WITH THIS LARGER SPREAD. THE REPRESENTATIVE INDICATED THAT LIMITED OFFICIAL USE

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HIS BANK HAD ASKED FOR THE 2.5 PERCENT SPREAD IN ORDER TO "TEST THE WATERS" AND WAS SURPRISED THAT THE CENTRAL BANK RAISED NO OBJECTION. HIS CONCLUSION WAS THAT THE AUTHORITIES HAD REALIZED, GIVEN BRAZIL'S FOREIGN DEBT LEVEL, THAT AN INCREASE IN THE SPREAD WAS APPROPRIATE.
CRIMMINS

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NNN

Message Attributes

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